

Message Text

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CINCPAC

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C O N F I D E N T I A L MANILA 10085

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: MASS, RP

SUBJECT: EMBASSY EVALUATION OF GOP REQUEST FOR C-130H FMS
FINANCING

SUMMARY: AIR TRANSPORTATION MODERNIZATION IS A KEY ELEMENT IN PHIL EFFORT TO INCREASE SELF RELIANCE. GOP DESIRE TO PURCHASE TWO C-130H AIRCRAFT ON FMS CREDIT BASIS IS LOGICAL BEGINNING IN PROGRAM TO PHASE OUT EVENTUALLY PRESENT PHIL AIR FORCE FLEET OF OBSOLETE C-47S AND OBSOLESCE C-123KS. LACK OF SPARES FOR LATTER AIRCRAFT WAS DOUBTLESS TEMPORARY PROBLEM IN FY 1974, BUT SIGNIFICANT IMPROVEMENT IN SPARES SUPPORT AND OVERALL IN-COMMISSION RATE FOR AGING PAF FLEET NOT LIKELY. TRANSPORT MISSION OF PAF GROWING AND ITS CAPABILITY DECLINING. MODERNIZATION WITH C-130 TYPE AIRCRAFT IMPERATIVE. PHIL DEBT SERVICE ABILITY ADEQUATE TO SUSTAIN PURCHASE THIS MAGNITUDE ON LONG TERM CONCESSIONAL BASIS. MISSION AWARE THAT ADDITIONAL FY 1975 OR 1976 FMS CREDIT FUNDING FOR PHILIPPINES UNLIKELY AT PRESENT; HOWEVER, MISSION SUPPORTS C-130H FMS FINANCING AND URGES THAT HIGH PRIORITY BE GIVEN THIS PRO-
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JECT WHEN FUNDS BECOME AVAILABLE. END SUMMARY.

1. INTRODUCTION: ADDRESSEES WILL RECALL GOP TABLED REQUEST FOR FMS FINANCING OF TWO (2) C-130S IN SPRING, 1974. AT THAT TIME, GOP WAS ASKED WHETHER C-130S OR M-16 PLANT HAD HIGHER FMS PRIORITY AND PHILS STATED M-16 PLANT HAD PRIORITY. NOW THAT LATTER PROJECT HAS BEEN APPROVED AND FMS MONEY HAS BEEN EARMARKED, GOP HAS RE-SURFACED C-130 PROJECT. EMBASSY WELL AWARE OF LACK OF ADDITIONAL FMS MONEY AT THIS JUNCTURE; NEVERTHELESS, AFTER OUR IN-HOUSE EVALUATION OF C-130 PROJECT WE HAVE CONCLUDED C-130 PURCHASE IS DEFENSIBLE ON ITS OWN MERITS AND JUSTIFICATION FOLLOWS HEREAFTER. PROJECT IS SUBMITTED AGAINST POSSIBILITY THAT FALLOUT OF FMS MONIES FROM FUNDED PROJECTS ELSEWHERE MAY OCCUR. IF NOT, WE WOULD HOPE PHIL DESIRE TO PURCHASE C-130S WOULD HAVE HIGH PRIORITY IF AND WHEN NEW FMS FINANCING AUTHORITY IS MADE AVAILABLE BY CONGRESS.

2. JUSTIFICATION:

A. MEETS SELF-RELIANCE GOALS: AIR TRANSPORT MODERNIZATION IS KEY ELEMENT IN CONTINUING PHILIPPINE THRUST TOWARD IMPLEMENTATION OF SELF-RELIANCE DEVELOPMENT PLAN. ACHIEVEMENT OF GREATER PHILIPPINE SELF-RELIANCE IS CONSISTENT WITH OVERALL US GOALS AND SPECIFICALLY WITH NIXON DOCTRINE GOALS.

PHILIPPINE DESIRE TO BUY C-130S IS ALSO RESULT OF GOP EFFORT TO ADHERE TO EXPORT-IMPORT BANK RESTRICTIONS AGAINST USE OF THREE EX-IM-FINANCED L-100S FOR OTHER THAN CIVILIAN PURPOSES AND ARE BEING OPERATED BY THE OFFICE OF THE PRESIDENT'S AEROSPACE GROUP.

B. MILITARY NEED: PHILIPPINE AIR FORCE (PAF) IS RESPONSIBLE FOR PROVIDING TRANSPORTATION TO ALL OF BRANCHES OF ARMED FORCES OF PHILIPPINES (AFP), AS WELL AS SUPPORT FOR GOVERNMENT DISASTER RELIEF OPERATIONS AND CIVIC ACTION PROGRAMS. PAF CURRENTLY POSSESSES SIXTEEN C-123K, THIRTY-SEVEN C-47, AND TEN F-27 AIRCRAFT TO PROVIDE MOBILITY FOR DEPLOYMENT OF SECURITY FORCES, THEIR EQUIPMENT AND RELATED LOGISTIC SUPPORT, AS WELL AS ITS SOCIO-ECONOMIC MISSIONS. OPERATIONAL READINESS RATES FOR THESE AIRCRAFT HAS AVERAGED AS FOLLOWS FOR THE PAST YEAR:

C-123K 40 PERCENT (6 AIRFRAMES)

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C-47 65 PERCENT (24 AIRFRAMES)

F-27 50 PERCENT (5 AIRFRAMES)

THUS, PAF HAS HAD AN EFFECTIVE FORCE OF ONLY 35 AIRCRAFT AT ANY ONE TIME. DURING LAST YEAR, A TEMPORARY WORLD-WIDE SHORTAGE OF C-123K PARTS REDUCED AVAILABILITY OF C-123K FLEET. MOREOVER, SINCE C-123K AND C-47 ARE OLDER AIRCRAFT AND NO LONGER IN ACTIVE USAF INVENTORY, SIGNIFICANT IMPROVEMENT IN SPARES SUPPORT AND OVERALL IN-COMMISSION RATES FOR

THESE AIRCRAFT NOT LIKELY. F-27 WAS PROCURED FROM A THIRD COUNTRY AND SPARES SUPPORT HAS BEEN VERY POOR. IN NEXT FIVE YEARS WE CAN EXPECT THE OPERATIONAL READINESS RATE FOR ENTIRE FLEET TO DECLINE AS AIRFRAMES CONTINUE TO AGE.

SINCE PHILIPPINE GROUND FORCES HAVE APPROXIMATELY DOUBLED IN SIZE TO 65,000 MEN SINCE MARTIAL LAW WAS DECLARED IN SEPTEMBER, 1972 (OR, FROM 16 TO 43 MANEUVER BATTALIONS) CAPABILITY OF PHILIPPINE AIR FORCE TO PERFORM ITS MISSION HAS NOT KEPT PACE WITH REQUIREMENTS TO MOVE AND SUPPORT THIS FORCE. MOREOVER, AGING C-123(KS ARE ONLY AIRCRAFT IN THE PAF INVENTORY CAPABLE OF ACCOMMODATING OUTSIZED MILITARY CARGO, SUCH AS JEEPS, TRUCKS, ARTILLERY PIECES, ETC.

MILITARY NEED FOR C-130H TYPE AIRCRAFT IS OBVIOUS. PAF AIRLIFT FLEET REQUIRES LONG-TERM MODERNIZATION WHICH SHOULD BEGIN NOW WITH THE IMMEDIATE ACQUISITION OF TWO C-130HS IN THE FY 1975-76 PERIOD, AND PROBABLY WITH CONTINUING ANNUAL AVAILMENTS OF FMS-FINANCED AIRCRAFT UNTIL C-47 AND C-123(K AIRCRAFT ARE PHASED OUT OF THE PAF INVENTORY.

C. THE ECONOMICS OF THE PURCHASE: VIEW OF WORLD BANK ECONOMIC TEAM ADVISING CONSULTATIVE GROUP FOR PHILIPPINES IS THAT PHIL BALANCE OF PAYMENTS PROSPECTS FOR NEXT TEN YEARS WILL BE MARKED BY IMPROVEMENT IN EXTERNAL DEBT STRUCTURE AND REDUCTION IN DEBT SERVICE RATIO WHICH WILL ENABLE PHILIPPINES TO SERVICE ADEQUATELY CONTINUED FOREIGN BORROWING. NEVERTHELESS, SITUATION WILL CONTINUE TO REQUIRE LONG-TERM FINANCING ON CONCESSIONAL BASIS. RECENT BOOM IN EXPORT PRICES HAS ALREADY BEGUN TO SUBSIDE AND RISING PRICES OF IMPORTS, ESPECIALLY PETROLEUM, HAVE PRACTICALLY WIPED OUT TRADE SURPLUS PHILIPPINES ENJOYED IN 1972 AND 1973. ON BALANCE, HOWEVER, CONTINUED HEALTHY GROWTH OF EXPORT SECTOR COMBINED WITH SHARPLY IMPROVED GOP PERFORMANCE IN COLLECTION TAXES SHOULD PROVIDE ADEQUATE BASIS FOR SERVICING

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DEBT FROM FINANCING \$12-15 MILLION EXPECTED COST OF INITIAL TWO AIRCRAFT WITH SPARES CONTEMPLATED FOR PURCHASE FROM LOCKHEED BY GOP.

3. RECOMMENDATION: THAT PRIORITY CONSIDERATION BE GIVEN TO MEETING PAF AIR LOGISTIC MODERNIZATION REQUIREMENTS WITH C-130H; THAT FMS CREDITS FOR THIS PURPOSE BE INCORPORATED IN FUTURE FMS BUDGET PRESENTATION TO THE CONGRESS; THAT, IF FUNDS BECOME AVAILABLE FROM OTHER COUNTRY FMS PROGRAMS IN THE MEANTIME, THEY BE ALLOTTED TOWARD THIS PRIORITY; THAT SUCH FUNDS AS ARE PROVIDED BE ON TERMS CONSISTENT WITH PHILIPPINE NEED FOR CONCESSIONAL ECONOMIC ASSISTANCE.

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